



# The Privateer

2007 Volume - Late July Issue - Number 583

**THE PRIVATEER:**

The Private Market Letter  
For The Individual Capitalist.

Published since October 1984.  
25 issues per year  
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**PUBLISHER:**

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## GLOBAL REPORT

### THE WHITE HOUSE IS AT PANIC STATIONS

The first evidence of this is a spate of changes in travel plans. President Bush recently cancelled a summit with Southeast Asian leaders in Singapore. Apart from the APEC Summit later this year in Australia, he has cancelled all foreign travels. Secretary of State Condoleezza Rice cancelled a trip to Africa and decided to avoid a meeting in the Philippines. Defence Secretary Robert Gates put off a four-nation tour through Latin America. The catalyst for all this is the fact that the Bush Administration is losing the war in Iraq politically - inside the US. From now on, the White House is as much under siege as is the Green Zone in Baghdad. The American public has turned solidly against President Bush, giving him an approval rating of 26 percent. That has made Republicans in Congress fear that they will go down with the President in 2008. The mainstream press has turned openly against President Bush. The US military is openly discussing the various ways a retreat could be made.

### Come September - And The FALL:

The much vaunted "surge" is faltering. The Iraqi resistance is going full blast, as can be seen from the fact that there were 5,335 attacks against US troops, Iraqi security forces, civilians and infrastructure in June. This total was only 2.5 percent below the October 2006 peak of 5,472 attacks. In September, the American General in charge of the occupation of Iraq has to report on what (if any) progress has been made. The Senate is also expected to authorise a record-breaking \$US 648 Billion in US defence spending for the fiscal year beginning October 1. This defence spending bill will be a political means by which Congress can (if they so choose) demand that the US military withdraw from Iraq as a matter of law.

If the White House staff cannot stop this, Bush has lost his Iraq war.

### On The Table - In Congress:

Congress has not yet passed the US Department of Defence Authorization Bill. But it requires President Bush to "*commence the reduction of the number of United States forces in Iraq not later than 120 days after the date of the enactment of this Act*". It also mandates a withdrawal of most combat forces by April 30, 2008. This is not a full scale US military withdrawal from Iraq. The bill would leave intact the four huge main US bases there. But once the main US ground combat force has been withdrawn, it will in short order be discovered that without this ground combat force, the bases themselves are unsafe.

This US Department of Defence Authorisation Bill is of vast importance. It covers all US military spending until October 1, 2008. If President Bush gets the money without the "withdraw from Iraq" clause, he can continue his war until his Presidency ends. If the clause remains, he must withdraw.

## **A Shift In The US Political Centre Of Gravity:**

All political events have a centre of gravity or a pivot around which other events unfold. This can most easily be seen in geo-strategy as well as strategy itself. In this context, any study of a map will show that most of the world-changing battles took place in the same localities or ones in close proximity to each other, even though the battles were often centuries apart. There used to be a name for these localities. One of the most common was “*God’s Little Acre*”, a place where thousands of men had fought and died in battle. All such localities are known to military theoreticians and historians as centres of gravity.

There are also centres of gravity in politics, REAL politics. This can be seen in English political history after the arrival of the early Parliaments. While thunderous debates were going on in the Commons and the House of Lords, the real political decisions were made elsewhere. They were made at a centre of political gravity, because all events were drawn there and all events turned around them as if on a pivot.

## **When A Formal Meeting Takes Place - The Decision Has Already Been Made:**

It is an amusing fact that the genius of English political history lies in the fact that the method employed is a version of the “Purloined Letter”. In Walter Raleigh’s time, a toilet was called a “cabinet”. In lower social circles, it was called a “privy”. And that’s where all the men of politics met to make the final decisions, in private. Later, but not much later, the cabinet became an actual place where all the ministers met in formal and informal session. This normally meant that the real decisions had already moved to another place where they could be made in private. All this was formalised in England after the once mighty Kings had lost their real political power to Parliament. This can be seen from the Privy-Council which were once the Gentlemen of the Bed Chamber and of the Robe, those who were with or close to the King as he did his morning (you guessed it) toilet and got himself dressed. These became empty positions of no power. Today, President Bush is an American King, utterly dependent upon those in his “cabinet”.

## **External Distractions For Internal Political Purposes:**

Consider two political situations. In the first, some people have decided that they want to change a nation born in Liberty and Individual Freedom into a nation where the government is authoritarian and where all members of the public will be subject to their official coercions. If such men tried to move towards their political objective in the open for all to see, they would early on be met by an enormous and irremovable public resistance. But consider a second situation, one in which these same men initiate an external war, simply for the purpose of distraction, and then proclaim at the top of their lungs that they need more INTERNAL powers to deal with what they call an external threat to the actual survival of the nation.

If the public buys the argument about the grave external threat (and historically they usually do), these political men gain their desired internal powers. Their problem now is that having launched the external war, they have to win, if for no other political reason than to show that they are competent to do so.

## **When External Wars Recoil:**

When military and strategic failure stares the political men in the face, the political centre of gravity shifts from the external threat to the internal powers-that-be. This has now happened inside the United States. The powers-that-be, the real ones around President Bush, are now fighting on two fronts. One is the military front in Iraq which they are losing. The other one is the political front inside the United States where, at present, they are under siege. It is this inner front - or Home Front - where they cannot afford to lose. To lose here means to lose everything. Geo-strategically, the US can easily afford to “lose” Iraq in the same manner they “lost” Vietnam. That one had no lasting effects.

But what the present powers-that-be in the US are loath to lose is the means of using small external wars for internal political purposes. Lose that and their present powers over Americans can not be sustained.

## **The Empire Few Americans Know:**

It is one of the peculiar facts of our times that not one in a thousand Americans know about the Empire that the United States has become. The hard facts are easy to get. The US itself publishes them for all to see. According to 2005 documents, the Pentagon acknowledges 39 nations with at least one US military base and the possession of stations with US military personnel in over 140 countries around the world. Reverse those facts and consider what Americans would think if 39 other nations had their military forces based on the soil of the US. That remarkable American historian, Chalmers Johnson, notes that in 2005, the Department of Defence (DoD) deployed 255,000 military personnel at 725 bases in 39 countries.

Since then, the total number of overseas bases has increased to at least 766 and, according to a report by the Congressional Research Service, may actually be as high as 850. In a 2006 Pentagon report, the DoD had a total of at least “280 ships, 14,000 aircraft, 900 strategic missiles, and 330,000 ground combat and tactical vehicles”. This is quite simply the greatest military force on earth - and it is also spread all over the world. In September, Congress will vote on a \$US 648 Billion spending bill to keep it all running. That is EMPIRE, even if one looks solely at all the material means and the range and reach of it.

## **The World Knows About The American Empire:**

The other not so peculiar fact about our times is that the rest of the world knows very clearly about the American Empire, especially inside the nations where the US has major military bases. In these nations, there is a near constant background political noise to the effect that the American soldiers should not be here. This is often given effect in public demonstrations. News of all such demonstrations are covered in the local news in these nations. but are rarely given any notice in the American media. What is noticed in the American media is when the President travels overseas, often to be met with public demonstrations.

In front of these expressions of “discontent”, many Americans stand dumbfounded. They forget to look to see what is behind the public stage. Were they to look, they would see the same US military bases that the locals know to be there. Japan is a case in point. It is a US military protectorate. There are about 50,000 US troops stationed in Japan under a mutual security treaty. After Japan’s World War II defeat in 1945 and the end of the US-led occupation in 1952, US Forces in Japan were established on July 1, 1957. That’s 50 years ago, and these US forces have been there ever since. Again there are often public demonstrations directed against these US bases in Japan, but Americans don’t see the bases at all.

## **It Is About US Government Policy - It Is NOT About Americans:**

The “canard” (or lie) held up before the American people is that the rest of the world hates them because of their “freedoms” and because of their “way of life”. This is false to its very roots, as is proven by international survey after survey. What is disliked, even hated, in many foreign countries is the presence of US military personnel and the numerous bases where they are housed. That is a result of US policy which is made in Washington by the politicians there. Even today, after the carnage in Iraq, there are many in the Muslim nations who express admiration for many features of life in America and who would want to import them into their own nation. That is especially true in Iran - particularly for younger Iranians. But when these same younger Iranians are asked what they would do if the US attacked, the answer is blunt and to the point. They would all pick up a gun and start killing the American invaders.

## **The ONLY Possible Road To A Resolution:**

The debacle of the Iraq war and occupation is one thing, a much bigger issue is the worldwide bases of the United States. Only when Americans in their millions recognise this and begin to ask the question as to why they are there will the global central issue come to the fore in the American political debate.

The basic lesson of human history is simple. External aggression leads to internal repression.

## The American Tragedy:

The United States as it once was in its original political structure was known as - *“The last best hope for all mankind”*. For close to a hundred years, it raised a standard, not only in the field of political practice but also in political ideas, which caused millions of people in other lands to rally to its cause and demand changes inside their own nations. Others simply left their own homelands to go and live in the *“land of the free and the home of the brave”*. In terms of history, the first century of the existence of the US was the period where the nation did NOT reach outside its own continent. That period and its core ideas of Individual Freedom and Liberty caused the political foundations under Europe’s ancient regimes to wobble badly. But once the US went to war with Spain in 1898 and had gained Cuba and the Philippines by force of arms, this perception across the rest of the world began to change. The US looked just like any of the other “Imperial Regimes” of which there were many. The lustre started to fade.

Today, the lustre which was the US has faded out. The original American ideas are still there, but the practice of the ideas is entirely missing, even inside the US. Instead, there is a grotesque political regime which is now spending as much annually on its own military might as the rest of the world put together.

## The Growing Internal Repression:

For purposes not made clear to the American people, the United States has been made into an Empire. At the same time, Americans, regardless of the massive investments in arms, have never seen themselves more threatened by foreign enemies. These are official ones in the form of other nations, and unofficial ones in the form of so-called terrorism. It is this perception of external threats and dangers which have caused many Americans to ignore the ever growing political regimentation of their own lives. Of Freedom, as it was once understood in America, there is little left. One just has to go to any US airport to find that out. Of Liberty, the broader freedom from government and all their agencies as well as the impositions of other people, there is next to none. All private businesses now report all facts economic as well as private to assorted government agencies. All, or almost all, American private activities are now “regulated”. Heaven help the miscreant who dares to defy what such regulatory agencies require.

## What Has Been Forgotten Is The End Purpose:

It was never said better and more clearly than by Lord Acton: *“Liberty is not a means to a political end. It is itself the highest political end.”* Once this is kept clearly in mind, it follows with the simplest of logic that all one has to examine is whether the political means chosen are suitable to gain the end sought.

Once that task is taken into hand inside the United States, even a very casual examination will show that the political means currently in use are in fact diametrically opposed to the end sought - that of Liberty.

## On The Edge Of The Critical Political Choice:

In the US, a full internal surveillance state has already been established. The government, acting in secret, is in fact spying on its own citizens. As all past political history shows, once this has happened, the real police state is but a short step away. Why do governments do this? They do it because the government of the day no longer trusts its own people in the sense that the people will go along with the policy of the government. It is at this critical point where such a government has to make a real political choice. It can change its policy in order to regain the confidence of the people or it can take the drastic political step of deciding that the peoples’ consent is no longer required and that the entire nation will now be coerced in the government’s chosen direction. It is at this point where all dissent is strangled and where police state measures are taken against those brave few who still dare to make their protest.

And then the balance shifts. Now, it is internal repression that is being used to sustain the external aggression. Since all Empires are external aggressors, the real cost of them is that all Freedom is lost.

## **The Longest Eighteen Months In US Politics:**

The huge and rapidly growing American political crisis has at least another eighteen long months to run. At the end of those eighteen months, President Bush has to leave office. Amongst the things which are already certain are that President Bush will not willingly begin a US military retreat from Iraq. He will have to be forced to do so by Congress withholding the funds. It is already certain that any such starvation of funds for the occupation of Iraq, the battles in Afghanistan and in the so-called Global War on Terror will be met by Presidential vetoes. It takes a Congressional override of 66 Senatorial votes to overturn a Presidential veto. President Bush is counting on the Democrats never being able to get the additional fifteen Republican votes they would need to overturn these expected Presidential vetos.

Any road towards impeachment and removal from office will be long, torturous and convoluted. The Democrat leadership in Congress has already made it clear that any such moves are "off the table". That leaves the entire issue of President Bush's present occupation of Iraq and his other wars in the hands of the American people - and this is where the remaining eighteen months become critical in political terms.

## **A Republic Or An Empire:**

That is today in the largest terms conceivable the choice before the American public. They can, as the British nation did after 1956 and the failed attack upon Egypt, choose to maintain the historical freedoms of Britain. To do that, Britain gave away their worldwide colonial Empire in the decade between 1956 and the mid '60s. The British Empire ceased to exist. The American people are also free to make the choice to support, even passively, the current US Empire of bases all over the world. In that case, they will have waved goodbye to any sad remnants of their present freedoms and liberties. If the American people support the US Empire, they will soon find themselves under an internal authoritarian repressive regime which will match any of those seen in the previous century. That will open the door to war after war outside the borders of the US. It will also cement in place a front INSIDE the United States against all those Individual Americans who oppose all these foreign wars.

## **The US INTERNAL Front Is The Decisive Centre Of Gravity:**

This INTERNAL political battle to come is the one that the present powers-that-be in Washington cannot afford to lose. Were they to lose, they would lose everything, their entire external Empire of worldwide bases as well as their own present internal power over the American people. Further, were the present powers-that-be inside the United States to politically lose this battle on the American internal front, most of them would be certain to be called to account for their external wars which have, so far, killed at least a million people in Iraq - all this done in the name of the American people! This is what scares the present powers-that-be in Washington. It follows from that fact that over the next eighteen months, they will use all means available to them to keep and hold the American people in line. That means that the critics of the occupation of Iraq and the more important critics of the US Empire of worldwide bases will be subjected to an unprecedented avalanche of vilification and denigration so as to destroy them in the American public debate. Were a significant portion of the American people to realise that the remnants of their own individual freedom and liberty face their final destruction, the internal situation in the US could turn on the proverbial dime. Were that to happen, the powers-that-be face a disaster.

## **That Is Why The White House Is At Panic Stations:**

The "top people" around President Bush are today like a group of confidence tricksters who realise that they are on the verge of being found out by the victims of their confidence games. They launched the US into an external aggressive war against Iraq - a war crime under the Nuremberg articles. They had no UN Sanction - a crime against international law. Iraq had had no WMD's since 1991. Later, after US forces arrived in Baghdad, nobody could find any WMDs anywhere. Having lied the US into their war, what the powers-that-be now fear is that the American people will finally discover the REAL truth about them.

## **INSIDE THE UNITED STATES**

### **EXECUTIVE ORDER:**

#### **BLOCKING PROPERTY OF CERTAIN PERSONS WHO THREATEN STABILISATION EFFORTS IN IRAQ**

This is the actual title of the latest Executive Order signed by President Bush. But the reality is much worse than the bland title. What this Executive Order means is that President Bush or anybody to whom he delegates these powers can act to “freeze” the property of any American designated as a “Certain Person”. In terms of law as it once was, what is the legal description or definition of a “Certain Person” ? There is, in fact, NO description or definition to be found in this Executive Order. In addition, please note with care that the order talks about a “threat”, not an actual physical action. That means that at any time the Bush Executive sees itself or its actions in Iraq “threatened”, even by words spoken in public, it can freeze such a “Certain Person’s” access to their own property - any and ALL of it.

#### **A Law Unto Himself:**

This Executive Order renders to Mr Bush the absolute power of law. But what it actually means in real political terms is that Mr Bush now has in his hands the means with which to act to silence most of his critics inside the United States. In short, the Executive Order is a blunt political cudgel of intimidation.

#### **This Is Not Censorship - It Is Strangulation:**

Imagine an American driving home in the evening and seeing a police car in front of his house. He stops and ask the sheriff what on earth all this is about. The Sheriff asks him if this is his car. The American answers yes and his registration is examined. Then, a sheriff’s sticker is slapped on the windscreen of the car which has become a “blocked property”. The American walks down the street to try to find his wife and daughter which he manages to do at a friend’s house. Later, he tries to get some money out of an ATM. The machine refused him his money and then holds on to his card. He returns to his friend’s house and calls his bank to ask a few questions. He finds that his bank accounts have been “blocked”. He gets a lift to work the next day only to discover that nobody wants to talk to him. An hour later, he is called into a vice-president’s office and told that he no longer has a job because the company cannot in any way afford the dangers of employing him. Out on the street again, he takes public transport to a law office where he personally knows several of the lawyers. Once there, he discovers that they are all in conferences and cannot talk to him. Out on the street again, he meets a younger lawyer friend who tells him that since he is now a “Certain Person” he is too dangerous to help.

Some months later, a man in his mid fifties is seen walking down a side road carrying a back pack. This man was a top performer in his profession. He has divorced his wife for the sake of her future safety. All he now wants to do is to get to a certain place he has been told about. Suddenly, a younger man steps in front of him and says good evening. He returns the greeting and is then told that the younger man is quite surprised to see him there - because only “Certain Persons” come this way. The ice is broken. They walk side by side for a while and then the young man says, “we’re here”. Through the night, the new arrival talks with many other people and explains his own background. He is a former Marine with three tours in Vietnam. A week or so later, an internal-intelligence officer opens the man’s file on his computer and adds that he has joined the “Un-Blockers” (see the title to Mr Bush’s Executive Order). A warrant is now issued for the man’s capture. His status has been “re-designated” in his file. He is now a “terrorist”.

Historically, this course of events has already happened to tens of millions of people. It happened in the USSR, in Nazi Germany, in Mao’s China and in too many other countries to mention. In all cases, it happened when the Executive Power gained the ability to write its own laws and have them enforced despite the judiciary and constitution of the nation it governed. That is now happening in the US.

## INSIDE CHINA - AND - JAPAN

### **CHINA RAISES - AND - JAPAN EXPORTS**

China has raised interest rates for the third time since March. The Peoples' Bank of China raised its one-year lending rate by 0.27 percent point to an eight-year high of 6.84 percent on July 21. The deposit rate increased by the same amount to 3.33 percent and a tax on interest income will be cut on August 15 to encourage saving. Not that the Chinese savers need any encouragement. They are the world's biggest savers, for the simple economic reason that China has no welfare state. Economically that is in fact ironic. During Mao's "Iron Rice Bowl" days when egalitarianism was to the fore, the Chinese found out that such "equality" was not worth having because there was next to nothing in the rice bowl.

#### **The More You Save, The More You Earn - Later:**

When Deng steered China's drastic U-turn about two decades ago, he turned over the empty rice bowl of the state and let each Chinese or each Chinese family fend for itself. The result was twofold. There was an explosive increase in the amounts of individual work done. On top of that, since the Chinese people were now totally exposed to the slings and arrows of random misfortune, there was a parallel explosion in individual savings. In time, these many small savings have turned into one of the greatest real investment surges in economic history. The latest economic data from China shows this clearly. China's investments in factory and real estate climbed by 26.7 percent over the first half of 2007, accelerating from the 24.5 percent increase for all of 2006. This is new capital formation with a vengeance. The output from these new factories will show up in stores right around the world. In terms of output, China is level with Germany, the world's third biggest economy. It is expected to exceed it next year.

By China's own calculations, its GDP in 2006 was about \$US 2.7 TRILLION. Germany's was \$US 2.9 TRILLION based on International Monetary Fund data. But Germany's economy, like those of the US and Japan, has been growing at a fraction of China's rate. And China has no intention of slowing down.

#### **Looking Under The Hood Of China:**

China's industrial output climbed 19.4 percent in June, the most in a year, after increasing 18.1 percent in May. China exported \$US 112.5 Billion more than it imported in the first six months of 2007, an increase of 84 percent from a year earlier. That inflow of money pushed China's foreign reserves, the world's largest, to \$US 1.33 TRILLION. China's fixed asset investment in urban areas jumped 26.7 percent in the first half from a year earlier, up from 25.3 percent in the first quarter. China is also trying to encourage consumer spending by raising minimum wages and improving social security. Retail sales rose 16 percent in June from a year earlier after gaining 15.9 percent in May. China's economy was growing at the fastest pace in 12 years in the second quarter and price inflation is surging. Gross domestic product has expanded 11.9 percent from a year earlier. But price inflation has climbed to 4.4 percent in June, the fastest rate of increase since September 2004. China's consumers have decided to go shopping.

#### **Japan Yells: *Sell! SELL!! S-E-L-L!!!***

Japan's trade surplus has surged in June as a weaker Yen and higher overseas demand for electronics and cars helped exports rise at the fastest pace in five months. The trade surplus has expanded 53.4 percent from a year earlier to 1.23 TRILLION Yen, the Ministry of Finance said in Tokyo. Japan's exports climbed 16.2 percent. A shift in Japan's balance of trade is now apparent as the fastest expanding export sector is with China followed by Europe. The US comes third. This shows that Japan is trying to lessen its dependence upon the internal US market while trying to offset that contraction in sales with an expanding sales effort in China and Europe. Japan knows how it would be affected by a real US economic recession. It has tried those before. But China has not tried a real US recession yet and its export industries are very dependent on American shoppers to keep right on shopping until they drop.

## **INSIDE THE EUROPEAN UNION**

### **THE US CREDIT STRANGLE GOES OVERSEAS**

At least 50 bond and loan deals worldwide have been cancelled or restructured over the past five weeks because of global investor concerns about losses on US subprime mortgage securities. Multi \$US Billion deals have gone down the drain. Inside the US debt markets the same effect is being seen.

Sales of collateralised debt obligations (CDOs) in the US are grinding to a halt. Sales of these securities, which pool bonds, loans and their derivatives into new debt, fell to \$US 9.1 Billion this month from \$US 42 Billion in June, analysts at New York-based *JPMorgan Chase & Co* said. Liquidity has simply dried up. The cost of insuring European corporate debt against default has hit a two-year high.

*Goldman Sachs Group.*, *JPMorgan Chase & Co* and all the rest on Wall Street are now stuck with at least \$US 11 Billion of loans and bonds they cannot re-sell. As a consequence, they will now lend less money.

### **US Share Buybacks Will Soon End:**

It has in fact been awe-inspiring to watch senior US companies borrowing Billions, adding these new debts to their own balance sheets, and then using all the borrowed money to buy up their own shares. US companies have announced \$US 157.4 Billion of new buyback plans during the past quarter. That is up nearly 58 percent from a year earlier according to *Thomson Financial*. During the first quarter alone, companies in the S&P 500 have spent nearly \$US 118 Billion to repurchase their own shares, more than in any previous quarter. This has all along had the earmarks of a huge price support operation.

### **Europe Is Different:**

In the European stock markets, the situation has been somewhat different. In Europe, most of the mega-deals funded by new debt issuance have been for purposes of mergers and takeovers, not directly organised price support operations. European share prices, therefore, have to be closer to market value compared to the shares in New York. That is not to say that Europe's shares will not fall should Wall Street swing downwards in a major correction, but it is to say the Europe's shares should not fall as far.

### **Europe's Exports And Imports:**

Europe's imports from China jumped 23 percent in the January-April period from a year earlier, while its exports to China rose 12 percent. Exports to the US fell 1 percent and imports increased 4 percent. This shows that Europe is now beginning to feel the economic chill of the US economic slowdown.

### **Stern Warnings From Moscow:**

MOSCOW, July 14: President Vladimir V. Putin formally notified NATO governments on Saturday that Russia will suspend its obligations under the Conventional Forces in Europe (CFE) Treaty. The official message from Moscow continued: "*If today's message is ignored, the Intermediate-Range Nuclear Forces Treaty will be next.*" The Russian Foreign Ministry explained that NATO's plans to open bases and deploy its troops in former East Bloc nations prompted this suspension because this left NATO in violation of the CFE treaty by exceeding force limits in Eastern Europe, a charge that the alliance denies.

### **Russia's Economy Is Doing Fine:**

Russia's trade surplus expanded 13 percent in May from the previous month as its exports continued to grow faster than imports, the Central Bank said. The surplus rose to \$US 12.7 Billion compared with \$US 11.2 Billion in April. Russia's imports totalled \$US 17.6 Billion in May while exports reached \$US 30.3 Billion. Russia's foreign reserves are at a record \$US 411.2 Billion.

## **AUSTRALIAN REPORT**

### **FORGET THE COURTS - IN AUSTRALIA, THE “MINISTERS” RULE**

The basic rule of law in Australia has been shown to be a hollow farce. A very experienced Magistrate, Jacqui Payne, had listened carefully to what the Australian Federal Police (AFP) had to say about Dr Mohamed Haneef, accused of having “recklessly” supported terrorism. The Magistrate obviously found the AFP’s explanations so paper thin that she decided to release Dr Haneef on bail for the sum of ten thousand Dollars - a paltry amount. Dr Haneef was free to go after posting this sum. Then all forms of proverbial political hell broke loose. The Minister for Immigration, Mr Kevin Andrews, dived head first into the action and revoked Dr Haneef’s visa after which he was then trundled off to be locked up in an immigration centre. Mr Andrews, in a door stop interview, confirmed that he spoke with Prime Minister Howard, but Mr Howard said the Minister acted on his own.

#### **A Legal Interlude:**

What has in fact happened here is that the Federal Government, in its desperation to get itself re-elected, has decided that the rule of law has no application when the government by itself decides otherwise. Historically - and the use of the past tense here is intentional - once a person has been arrested, it is the first responsibility of the police to get that person before a court as fast as possible. Once there, the police explain to the Judge the reason(s) for the arrest. If the Judge agrees, that person stays in jail until the trial.

But often the charge is not of such a severity that jail is required. Bail is offered. Once it is paid, the accused is out on the street to appear in court at some later time. This is what happened in court for Dr Haneef because that was the decision of the judge. For the government on the ministerial level to interfere with what the court has decided places the government itself above the law. It also makes the judiciary irrelevant. Why have courts if ministers can roll right over them? Further, this situation is a version of double jeopardy. If the courts will not incarcerate a person who the government wants in jail and the government then acts to put that person in a different jail regardless, the court becomes irrelevant.

#### **Whoops - The Evidence Is WRONG:**

Central to the original case against Dr Haneef was the claim that a SIM card he had given to another family member was found in the wreckage of one of the cars in the recent Glasgow bombing incident. It has now come out in London that this SIM card was actually later discovered in a flat in Liverpool. It was nowhere near Glasgow. With that “discovery”, the factual case against Dr Haneef that he recklessly supported terrorism falls to the ground. The man is in jail because Minister Andrews has withdrawn his visa on “character grounds”. Queensland Premier Peter Beattie, to his credit, has called the AFP investigation of Dr Haneef reminiscent of the Keystone Cops. But the rule of law has ended in Australia.

#### **Now - Ministers Rule:**

The old rule that the government presents the evidence against an accused in open courts for all to see is over. The principle of an Independent Judiciary is over! How can it be otherwise when a Minister can of his own accord act to override the decision of the court? The Howard Government had an open legal door which it could have gone through by simply appealing this lower Court decision. If the appeal had been upheld by the appeals court, it would have altered Dr Haneef’s situation. If the appeals court had upheld the decision of the lower court, the Howard government would have been face down in a gigantic omelet of its own making - “egg on the face” does not suffice in this instance. The entire farce would have been seen as an attempt to burnish the government’s credentials as vigilant “anti-terrorism” fighters leading into the election. Instead, Australia has suffered the DESTRUCTION OF THE RULE OF LAW!

The man who “rules” the Ministers, including Mr Andrews, is John Howard. Voters can end his rule.

## THE GLOBAL MARKET REPORT

### **SUDDENLY - DEBT IS A DIRTY WORD AGAIN**

In our previous issue, the headline in this section of *The Privateer* read as follows: “13907 ON THE DOW - 80.39 ON THE USDX”. The first number was an all time high, the second was a bear market low. As you probably know, the Dow went on to hit the 14000 level - exactly - at its close on July 19. The USDX (US Dollar Index) dropped further - to hit a low on a closing basis of 79.93 on July 24. By the end of last week, on July 27, the Dow had slid all the way down to 13265. The USDX had actually recovered, closing the week at 80.81.

In the avalanche of analysis we have seen on the internet and in the mainstream financial press, the one item we have NOT seen covered is the simple fact that the sell-off on US stock markets (which quickly became global) coincided exactly with this “dip” by the USDX below the vital 80.00 level on July 24. On the previous day, the Dow had closed at 13943 points. It then fell 226 points on July 24, 311 points on July 26 and a further 208 points on July 27.

Now here’s another quote from this section in the previous issue of *The Privateer*: “*In rational economic and financial times, a stock market which is surging to all time highs does not equate with a currency which is threatening its all time lows on global exchange markets.*” Even in “irrational” times, this situation is unsustainable. The past week has seen proof of that, and the first steps towards its unwinding.

#### **The Flight To “Safety”:**

No, this isn’t about the stampede into government bonds this week. We’ll have more on that later.

In the 1930s, the old canard - “*We’re from the government, we’re here to help you*” - was actually taken seriously by millions of Americans who literally didn’t know where their next meal was coming from. Nowadays, the only Americans who still take it seriously, in public at least, are politicians, lobbyists, and welfare recipients. More recently, the tune changed. “*We’re from the government, we’re here to protect you*”. That one was taken seriously too, in the period between the 9/11 attacks and the end of the first year or so of the Iraq occupation. Not any more. Polls show that the majority of Americans have realised that Iraq has become a breeding ground for “terrorists” BECAUSE of (not in spite of) the US occupation.

But there are actually two ways of placating the population of any nation which leaves the politicians and political and financial establishment unencumbered in pursuing their policies. One is to scare the people with threats (manufactured if necessary) from without. The other is to lull them into a false sense of financial security from within. Rome became an empire by resorting to the first method and remained one by resorting to the second. In its decline, both were used together. When their falsity had become so clear that the most myopic Roman could no longer ignore the fact, the Roman empire crumbled to dust.

Roughly speaking, the same method has been used by every global or would-be global empire which has ever existed. Since no empire has ever been truly “global”, there has always been an external “threat” to invoke when and as needed. And since the cost of maintaining empire has always outstripped the productive capacity of the seat of empire, there has always been monopolisation of the issuance of money followed by a gradual takeover of the economy of the seat of empire by the government. Once a government becomes the sole issuer of the money, the longevity of any empire is strictly defined by the speed with which the government corrupts the money. The longest-lived empire in history, the East Roman Empire which became the Byzantine Empire which became the Ottoman Empire, lasted so long because its money - the Bezant - remained uncorrupted for over a thousand years.

Corrupt money is necessary to gain and preserve political power. It was once done by reducing the weight and fineness of the currency. In our era, it is done by means of issuing unrepayable debt.

## In Debt We Trust (Until We DON'T!):

Recently, a colleague had a conversation with a young man of his acquaintance regarding this young man's efforts to get ahead financially in the world. Our colleague gently pointed out the advisability of getting into a position of greater "liquidity" given the dangers which both saw coming on the financial and investment horizon. *"Oh, I've already taken care of that",* replied the young man proudly. *"I've increased my liquidity substantially - I've got access to two more lines of credit."*

It has been almost exactly 36 years since the last concrete impediment to unlimited indebtedness was removed when President Nixon cut the last tie between the US Dollar and Gold. It has been nearly two decades since the American people decided once and for all to follow the example of their government and abandon even the pretense of saving money. The period since then, since the beginning of the 1990s, has been one of continual market bubbles. Each one was bigger than its predecessor. Each one was fuelled by an acceleration in the level of "credit creation" (read indebtedness). The cumulative effect of these market bubbles has been to convince almost everyone in the US (and in most of the rest of the world, the English-speaking world in particular) that they were "rich". And so they were - ON PAPER.

Governments are always willing to borrow, but if they cannot include the nation they govern in this course of action, their ABILITY to borrow is limited and therefore the power they seek to accumulate is also limited. For a proper credit expansion to get started, there has to be a widespread willingness to borrow. Once it is started, it can only be kept going if it continually accelerates. For this to happen, more and more people have to be willing to borrow and the amounts they are willing to borrow have to increase. A financial bubble requires that this willingness to borrow spreads outside professional banking and market circles to the general population itself. The reason why the depression of the 1930s dragged out so long was that the American people could not be persuaded to resume their borrowing, even at interest rates which fell below the 1.00 percent level. It took a war to get them to do that.

In our modern times, what it took to get the American (and Aussie and British and many other) people to dive head first into the borrowing frenzy was two decades of watching their living standards stagnate in comparison to the people who WERE borrowing. What happened when they DID start borrowing with a vengeance was the biggest stock market bubble in history followed by a vastly bigger bubble in real estate. The first stock market bubble popped in 2000. The real estate market popped in 2006. The second stock market bubble, which only reached its old 2000 highs after the real estate bubble had popped, hit a brick wall over this past week. Whether it has terminally popped, only time will tell, but ALL the signs are there for all to see.

There is nowhere else in the financial world where a "new" investment bubble can be blown up to replace those which have now literally run out of air. More ominous by far, the underbelly of an economy made "prosperous" through credit creation has now been revealed. Willingness to borrow is fading, fast.

## A Drastic Change Of Attitude - It's Coming:

Consider these lyrics to a song made popular decades ago by Tennessee Ernie Ford:

*"You load sixteen tons, and what do you get?  
Another day older and deeper in debt.  
Saint Peter don't you call me 'cause I can't go.  
I owe my soul to the company store."*

That song was penned in 1946, reflecting the ethos of the 1930s when Americans knew what debt does to people. It was written in an era when the willingness to borrow could not be created despite all the desperate efforts made by the government of the day to do just that. Contrast that attitude with the attitude of the young man quoted above about his increased "liquidity". The world is in for a rude shock.

## The Fuel Is Drying Up:

In May 2007, foreign investors spent a one month record of \$US 42.5 Billion on US stocks and also more than doubled their purchases of US corporate debt paper. In the 12 months to May 2007, foreign investors bought \$US 133.7 Billion in US corporate bonds. The savage crunch on the ability of US corporations to sell their debt which began with the *Bear Stearns* debacle in early June has reached crisis proportions over the past two weeks. And now this new-found appetite of foreign investors for US stocks has been dealt a hard blow with the big falls over the past week.

But the definitive PROOF that the appetite for debt inside the US has hit a brick wall came with the Commerce Department's announcement of a 3.4 percent preliminary estimate of the rate of US economic "growth" in the second quarter. The Commerce Department report went on to state that in that same second quarter, US consumer spending plummeted. It "grew" a mere 1.3 percent compared with the 3.7 percent it had grown in the first quarter - when official economic "growth" was put at 0.6 percent. The surge in "growth" in the second quarter was put down to faster business spending. That was when foreigners (and Americans) were still pouring money into US stocks and US corporate bonds.

And what of the "flight to safety"? That is now well underway. It is of course the switch from "risky" assets (like stocks, commodities, precious metals, corporate and real estate debt etc) into the "risk-free" asset which a government bond is perceived to be. In reality, a government bond represents borrowed money which is guaranteed to have been spent for no genuinely productive purpose. It is also the one form of debt which relies totally on those who hold it to both finance it and eventually repay it. As Franz Pick said, a government bond is a "*certificate of guaranteed confiscation*". A cursory glance at financial history would prove him right. Once THAT realisation dawns (and it will, it always has), the jig is UP.

## Recent Events:

In our last issue (published on July 15), we were reporting upon a "melt-up" in US and world stock markets. That "melt-up" lasted one more week - the Dow closing at 14000 on July 19. Then came the week just ended and the beginning of what may well become a global stock market melt DOWN. For the record, in six trading days, the Dow has lost 5.25 percent, the Nasdaq 5.81 percent and the S&P 500 5.25 percent. But to see the real damage, consider the fact that the S&P investment bank index fell 3.7 percent on July 26 alone and is now DOWN 9.1 percent on the year.

So far, the money which has been "rescued" from the US stock and corporate bond markets has poured into US Treasuries while the money Americans have repatriated from plummeting overseas markets has, by being exchanged for US Dollars, managed to boost the USDX back above the 80.00 line. So far.

## Gold:

Please see Gold This Week (GTW):

<http://www.the-privateer.com/subs/goldcomm/gold.html>

## What's Next?:

Global US policy malaise and even the growing political scandals surrounding the Bush Administration domestically have taken a back seat to the sudden and savage downturn on global stock and corporate bond markets. Now, all eyes are on world stock markets as they open on July 30 and react to the further rout on US stock markets on Friday, July 27. It is a sure bet that "preparations" have been made by the global financial powers-that-be to make sure the "rot" doesn't go any further. We'll soon see if they are going to be successful. Even if they are, it will be only a temporary reprieve.